JANUARY, 1933

The Real Estate ANALYST

SAINT LOUIS EDITION

A SUMMARY OF THE PRESENT CONDITION OF REAL ESTATE IN GREATER SAINT LOUIS WITH A FORECAST OF GENERAL TRENDS FOR 1933

IT is customary, at the end of the old year and the beginning of the new, to take stock and plan for the future. Accordingly, this issue of the REAL ESTATE ANALYST is concerned primarily with summarizing the present situation as it affects real estate and forecasting as far as possible, the probable trends during 1933.

It is characteristic of human nature that we find it difficult to form reliable judgments on problems which greatly affect our property or person for the two following reasons:

1. The importance of various factors is seen from the standpoint, not of their real importance as fundamental causes bringing about certain inevitable results, but from the apparent importance to us of their immediate results.

2. Our desires and investments give an unconscious bias to our conclusions, making us often unwittingly guilty of "wishful thinking".

As economic laws have no respect for either our investments or our wishes, it is especially necessary in a period of rapid changes like the present, to keep a proper perspective on our problems. Accordingly, as a supplement to this issue, REAL ESTATE ANALYSTS, INC., is sending each subscriber a large framed copy of some of the more important long-time charts on real estate. These charts are so drawn that corresponding years in the different charts are immediately above each other, making a study of the relationships easier. We hope you will hang these charts where you can study them frequently. They represent the facts of Saint Louis real estate, about which there can be no difference of opinion.

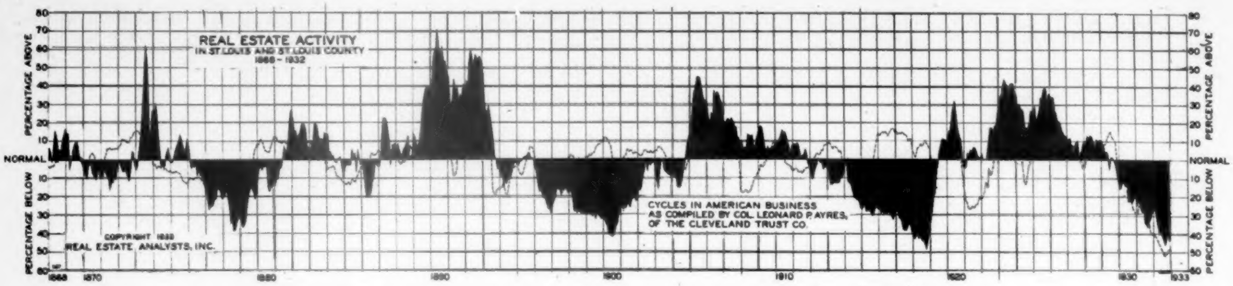
On the following pages you will find the more important factors affecting real estate covered in detail. We have tried in these pages, insofar as space would permit, to explain the present situation without fear or favor. For a more complete discussion of some of these factors, we would refer you to the issues of the REAL ESTATE ANALYST in which each of these factors has been discussed at length. Such forecasts as are made in this issue are made after a careful consideration of the known facts thought to be important.

During 1933, watch foreclosures. We believe any appreciable improvement in the general situation will first become apparent here, to be followed later by improvement in activity.

THE MONTH'S CHANGES AT A GLANCE

The indicators at the bottom of the page will show at a glance the month's changes in conditions. The position of the arrow head shows the movement during the month - up indicating improvement and down, decline.

ACTIVITY			FORECLOSURES			CONSTRUCTION			APART. RENT			OTHER RENT			MARRIAGES		
OCT.	NOV.	DEC.	OCT.	NOV.	DEC.	OCT.	NOV.	DEC.	OCT.	NOV.	DEC.	OCT.	NOV.	DEC.	OCT.	NOV.	DEC.



REAL ESTATE ACTIVITY IN GREATER SAINT LOUIS

THE full sized framed Real Estate Activity chart published as a supplement to this issue and reproduced in miniature above,shows graphically the variations in real estate activity in Greater Saint Louis from 1868 to the present. The straight line marked normal represents the average number of voluntary transfers of real estate which would normally take place, were it possible to eliminate entirely the periodic swinging of the pendulum from feverish activity to frigid inaction. This line takes into consideration the number of families in the area and such other factors of growth which have gradually been increasing the volume of business. The black areas below the line represent periods of inactivity. The scale at each end of the chart shows the percentage above or below normal. The dash line superimposed on the areas is a line showing fluctuations in general business activity in the United States.

There are four facts, entirely ignored in the past, which must be learned from this chart if we hope to understand the future of real estate.

I. Real Estate Activity is periodic, coming in more or less regular cycles. During each major boom this fact is lost sight of by almost all investors. Property is purchased with the idea that liquidity is permanent and that it can be disposed of again almost as readily as it was purchased. A period of activity is the time to sell and a period of inactivity the time to buy, but most investors reverse this procedure and buy in the boom and then try to sell after the drop.

II. Real Estate Activity is only partially dependent on general business. A careful study of the fluctuations of the dash line representing general business activity on the large framed chart (hardly perceptible on the miniature above) will show that, while generally some effect can be seen in the real estate activity areas, there have been many times when general business was active and real estate quiet, and many times when general business was quiet and real estate active.

III. The length of the real estate cycle is much longer than the length of the general business cycle. Since the Civil War, there have been only three complete major real estate cycles, running from fifteen to seventeen years each, with a fourth, still uncompleted, having lasted thirteen years so far. During this same period there have been twelve complete general business cycles averaging only five and one-half years' duration.

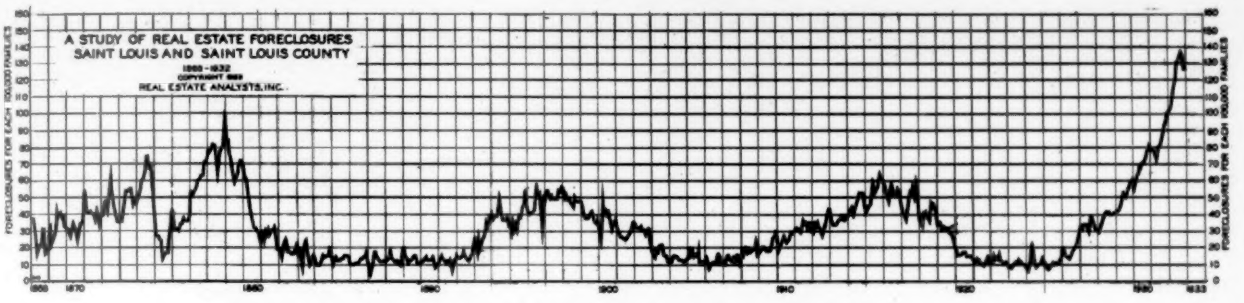
IV. Real Estate Activity has increased with great rapidity at the beginning of each cycle, has reached its height and then gradually subsided over a long period of years. The recovery from the low in most cases seems gradual until normal is reached. Then the next cycle starts with a tremendous increase in a few months' time. The War depression was an exception in that activity continued to decrease until the very end of the cycle with the recovery coming in a few months from the extreme low to the boom heights without any preliminary hovering around the normal such as was experienced in the depression of the seventies and of the nineties.

FORECAST: No great improvement can be expected in real estate activity during the first half of 1933. A study of the recoveries in activity after the real estate depressions of the seventies, the nineties and the World War, shows the following similarities:

1. In no case has activity shown any permanent increase until the absorption of vacancies was well under way. This has not yet occurred.

2. An increase in rentals either preceded or occurred simultaneously with the increase in activity. (See page 106 for a discussion and forecast of rentals.)

3. A drop in the foreclosure rate either preceded or occurred simultaneously with the increase in activity. (See the following page for a discussion of foreclosures with a forecast for 1933.)



FORECLOSURES ON REAL ESTATE IN GREATER SAINT LOUIS

THE miniature above is reproduced from the full size chart in the framed supplement to this issue. It shows the variations from 1868 in the number of foreclosures on real estate for each 100,000 families in the city and county.

It is immediately apparent that heavy foreclosure periods have come in fairly regular swells, coinciding in time with periods of inactivity in real estate. A foreclosure rate of more than twenty-five per month after a period of low foreclosures has been a certain indication in the past that a period of from five to ten years of heavy foreclosures was ahead.

There is apparently very little relationship between the foreclosure cycle and the general business cycle. In the late nineties, business was very active but foreclosures were high. Again in 1916, 1917 and 1918, war prosperity sent business above the normal line but foreclosures mounted steadily to a peak.

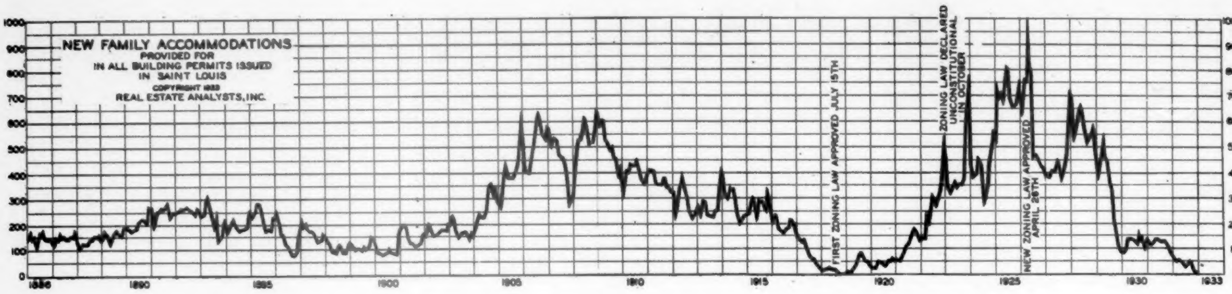
What are the causes of these periodic tides in foreclosures? In order to understand fully the present situation and the future outlook it is necessary to consider the following factors:

I. Periodic overbuilding. In the first part of every boom, the ownership of real estate becomes quite profitable. Rents are increasing and prices are going up. This attracts buyers. The multitude of buyers increases the demand, while it takes some time to increase the supply of buildings. This boosts prices still higher and makes it quite profitable for the speculator to build. Loose credit seems justified, as everyone is making large profits. Large investors find that buying and selling on margin with as large a deed of trust as possible on each piece of property, brings large profits on the amount invested. People of smaller means invest their savings in small equities and endeavor to resell at a profit. But the supply of improved real estate has now passed the demand and vacancies are becoming more numerous, making serious inroads into earnings already too small to justify inflated prices. Properties are offered to indifferent buyers and values start to fall. At the first decrease, the small, margin-owned properties and those in weak, financial ownership are foreclosed. Inflated values continue to fall and equities in over financed properties melt away, making foreclosure in many cases inevitable.

II. The inactivity of the market increases the collapse. If real estate were liquid at all times, in a period of pressure an owner of several pieces of property could sacrifice some of his parcels to increase his equity in the remainder. When property becomes "frozen" one piece cannot be sacrificed to save another. The absence of liquidity in the last half of each real estate cycle contributes tremendously to foreclosures.

III. A drop in the general price level of all things - wheat, cotton, rents, service, etc., due to a change in the purchasing power of money, decreases equities and increases the burden of debt. Foreclosures mounted to record heights in the depression of the seventies and the present, due to this aggravating cause. For a complete discussion of the change in the value of money and its effect on foreclosures, see pages 16 to 18 in the April, 1932 issue.

FORECAST: The drop in the foreclosure rate during the past few months is quite reassuring. Will it continue? Loans falling due this year were, for the most part, made or renewed in 1930 and it is true that the greater part of the drop in replacement cost has come since 1930, (see page 105) making serious inroads into equities above these loans. However, the foreclosure rate in 1930 had reached a point higher than it had at any time since 1878 and had scared investors into a fairly conservative position. We believe, therefore, that foreclosures will remain high during 1933 but that the peak has been passed.



NEW RESIDENTIAL CONSTRUCTION IN SAINT LOUIS

THE miniature above is reproduced from the full size chart in the framed supplement to this issue. It shows the number of family accommodations provided for in all building permits issued in Saint Louis from 1886 to the present. We are not interested in any way in the number of permits issued. The Park Plaza Hotel was one permit; a small frame cottage housing one family was another; a church was another, and a small addition to a ramshackle garage was a fourth. The total number of family accommodations is of far more value than the number of permits.

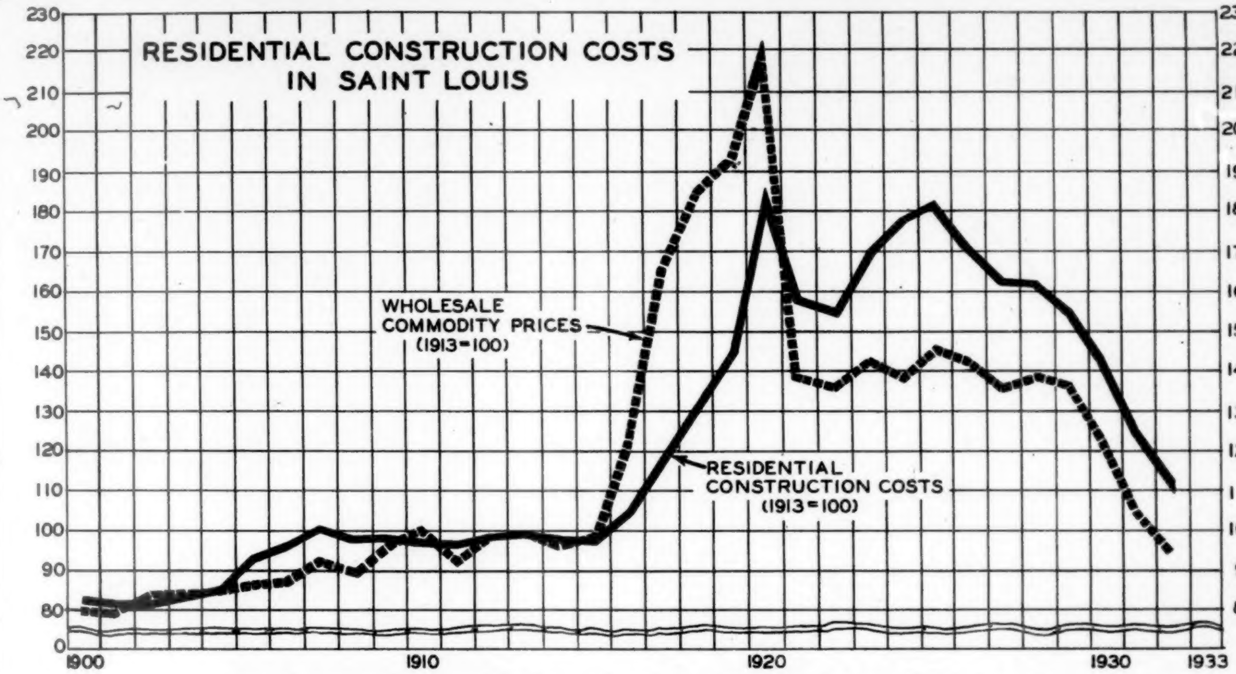
It is apparent that the construction cycle corresponds in a general way to the general real estate activity cycle. That the amplitude of the swings is getting greater is probably due to the greater difficulty in recognizing an over supply as quickly in a larger city, as could be done when the city was smaller. The fact that a larger number of accommodations has been built in each succeeding cycle, in spite of the fact that the city has been growing at a slower rate, is probably explained by the fact that as the city grows older a larger and larger proportion of its buildings will fall in the obsolete and dilapidated class. At the present time, 225 dwelling units a month are passing the fifty-year age mark in Saint Louis. By 1940, this will exceed 275 and it will remain at this figure until 1970 when it will drop back to 200 a month. If the assumption, generally accepted, that fifty years is the useful life of a dwelling even approximates the truth, replacements will form a large part of the building operations in the future.

FORECAST: During December, new accommodations for seven families were provided for in all building permits issued in Saint Louis. During the past sixty years, only four months during the World War provided a lesser number. During 1933, new residential construction will almost pass out of the picture. This is inevitable, as new construction starts only after the absorption of the greater part of the over supply has increased rentals and values to the point apparently sufficient to make new properties profitable investments at current rates of construction. This increase in rentals and values must be accompanied by a sufficient easing of credit. Thoroughly understand this principle and it is plain that any amount of new construction of dwelling units is still far in the future. New construction of dwelling units in Saint Louis has not halted because of the depression or because of tight money but because we have built more dwelling units than we now have separate family groups to occupy.

It is true that the reduction in the number of family groups, due to the depression, is one of the outstanding causes of the excessive over supply at the present time but these family groups will not be increased sufficiently this year to bring about the reduction in vacancies which must precede new building.

This almost total lack of new building is one of the best remedies for the ills of real estate. New construction destroys real estate values by increasing the supply. An absence of new construction has a tendency to raise values by allowing the demand to catch up to the supply.

The REAL ESTATE ANALYST is published monthly by REAL ESTATE ANALYSTS, INC., Saint Louis, a statistical, analytical and appraisal organization specializing in the application of real estate economics and fundamentals to specific problems. It is not engaged in financing, management or brokerage of real estate. The subscription price of the Saint Louis Edition of the REAL ESTATE ANALYST is $180 a year, payable semi-annually in advance.



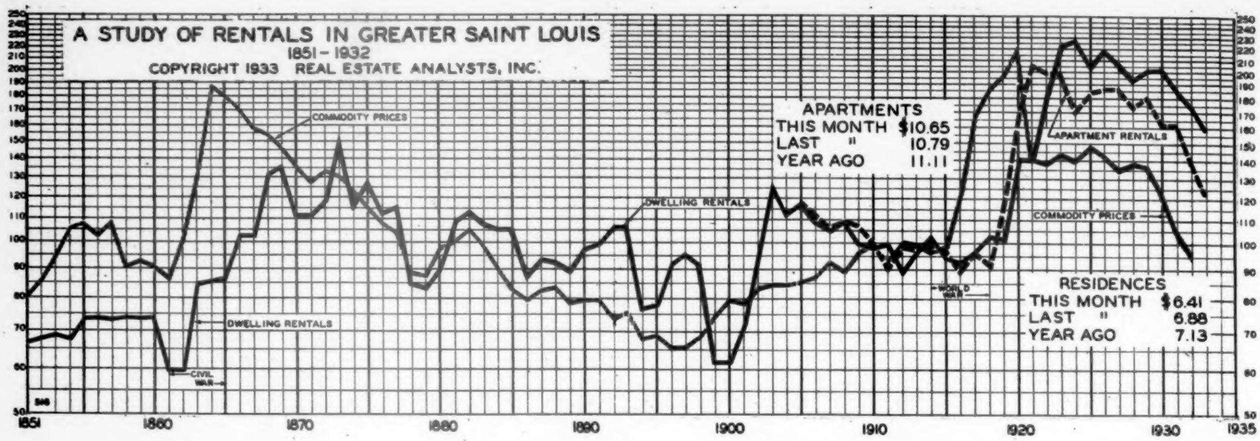
RESIDENTIAL CONSTRUCTION COSTS IN SAINT LOUIS

THE values of all buildings now standing are influenced to a marked degree by changes in their replacement costs. We do not mean to infer by this that the value of a piece of property is necessarily the summation of the cost of the land and the replacement cost of the building, less depreciation and obsolescence. It may be more or it may be less than this, depending on the profitableness of its use. However, if values generally exceed replacement costs for a period, new building is stimulated and values are reduced below replacement costs by the over supply resulting. Over a long period, therefore, variations in construction costs determine, in a general way, variations in value.

Since this is true, it is necessary, if one would forecast future values, to keep abreast of changes in construction costs. This REAL ESTATE ANALYSTS, INC., has endeavored to do by detailed studies published in recent issues. The chart above summarizes these changes on residential buildings from 1900 to the present, eliminating, as much as possible, variations which have been due to the changes in specifications such as tiled walls in the bath, electrical refrigeration, etc. This line does not represent any one building, and accordingly is less valuable for many purposes than the studies of specific buildings. It supplies, however, a general picture of the major fluctuations in the cost of residential construction. For comparative purposes, the fluctuations of wholesale commodity prices are shown by the dotted line. This line represents the fluctuations in wholesale price of 784 items weighted in proportion to their importance.

FORECAST: It will be noticed that construction costs started dropping in 1926 and that the rate of drop was greatly accelerated from 1929 on, until today they are relatively little above prewar. We believe that the drop from 1926 to 1929 was due to the production of building materials at a faster rate than the building industry - already past the boom - could absorb them, and by increasing unemployment in the building trades. Since 1929, the drop has been accelerated by the great change in the purchasing power of money and by the almost complete cessation of all residential building. With no new building in prospect, with the building material concerns equipped for volume output, material costs will probably decline further during 1933. Actual labor costs have already been deflated in our index. Union scales will drop on April 15th or the Unions will lose all change of competing for such smaller jobs as may go forward. Unemployment among skilled building tradesmen during 1933 will furnish the competition which will keep actual wage scales down to their present levels.

Unquestionably, however, the greater part of the liquidation in actual competitive building costs on smaller projects is now behind us and the changes during 1933 will be relatively slight. On larger projects, more sizable drops are anticipated during the year.



RESIDENTIAL RENTALS IN GREATER SAINT LOUIS

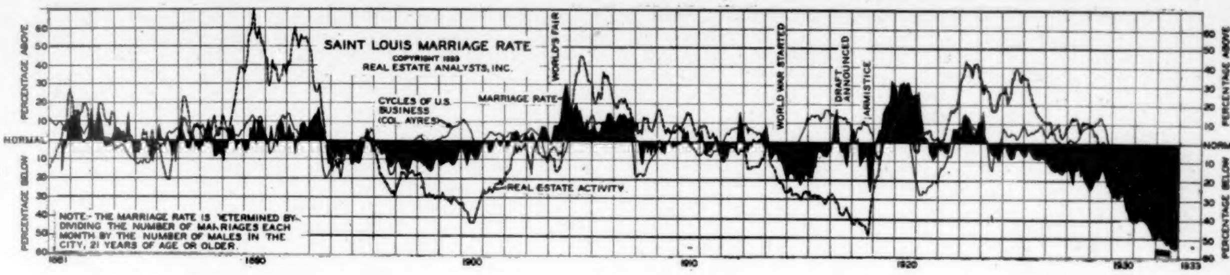
THE chart above illustrates the fluctuations in advertised rentals as computed by reducing all classified for rent advertisements to an average rent per month per room. While we realize that advertised rentals and actual rentals are not always the same, we believe that this chart, with certain allowances for these discrepancies in depression periods, very closely approximates rental fluctuations. It will be noted that from 1904 on, the rentals have been separated by a solid and a dash line. The solid line represents ordinary residential rentals, the dash line apartment rentals where heat is furnished. The third line shows the fluctuation of commodity prices over the same period.

Undoubtedly, rentals are affected directly by two things: First, the relationship of supply and demand; and Second, the variations in the purchasing power of money as reflected in construction costs and changes in family income. Neither of these factors has been figured back long enough to use them on our chart, so commodity prices are used as a substitute more or less similar. A new study is being made at the present time which, we think, will represent more nearly these factors. It is interesting to note that when such information as is available on wages is charted over this same period, it shows much of the gain which rentals show in relation to commodity prices. It is natural that this be true. Higher standards of living during the past eighty years have been possible because of higher family income, made possible by greater production of commodities per man hour. The increase in family income has enabled the family to pay a larger amount for housing which has resulted in a more elaborate house. When income goes up, rents go up. If this theory is true, it means that commodity prices can stay on the approximate prewar level where they now are, while rentals will seek a level as much above prewar as family incomes are above prewar incomes.

Construction costs affect rentals in a negative way. If rentals are higher than necessary to pay an adequate return on construction costs, new construction gluts the market and rentals drop below a fair return on replacement costs. If, through improvements in construction methods, building costs decline, rentals will fall for a short time but if family income remains constant, the quality of the home will improve until again rentals take about the same proportion of income. The increase in the quality of the home has been quite apparent since 1851 when a hydrant in the yard was the height of luxury, found only in the finest homes.

<u>FORECAST</u>: Rentals will continue to fall during the first part of 1933 as the large over supply of quarters will force landlords to bid against each other for tenants. This will continue until the factors discussed on page 107 reduce vacancies.

We believe that commodity prices will not change materially in the near future, unless manipulated by legislation. We believe that family incomes, after the present depression, will be below the 1926 level but above the 1913 level, resulting in a net gain to the worker in the actual purchasing power of his wages. This happened after the Civil War deflation and we see no reason why it will not happen again. Also, after the Civil War deflation, commodity prices went back to prewar while rentals remained above prewar.



ABSORPTION OF VACANCIES IN GREATER SAINT LOUIS

There are four causes for the excessive vacancy existing at the present time:

I. Over building: Undoubtedly too many living quarters were built in every large city in the United States during the boom. Part of our excessive vacancy is due to this actual over supply. We do not believe, however, that this over supply is nearly as great as it seems.

II. The doubling up of families due to unemployment: This is tremendous and has vacated temporarily thousands of living quarters. There is no way of actually measuring the extent of this doubling up. It has been tried twice in the vacancy surveys made by the letter carriers of last year and this, but the returns are far from complete. Some letter carriers ignored the question entirely while others made only partial returns. The rebound from this doubling up will come as the unemployed are re-absorbed. "No house is large enough to hold two families".

III. Back to the farm movements: Because of unemployment, many people have been forced to leave the large cities and return to rural communities. Here, again, it is very hard to get a measure of this exodus. From the standpoint of the person interested in real estate the important question is - "Will they return when conditions improve?" We believe that the greater number of them will. Agriculture has been mechanized to the point where it takes less man hours per given crop. Industry has also been made more efficient but we believe shorter hours in the city will compensate for a portion of this greater efficiency. There is slight chance of large exports of agricultural products in the relatively near future.

IV. Drop in the marriage rate: The chart above shows a study of the marriage rate in Saint Louis from the time the marriage license law was passed in Missouri in 1881 to the present. Superimposed on the black areas showing the marriage booms and depressions, are two lines showing real estate activity and general business activity. A very direct relationship can be noticed in many places between fluctuations in real estate activity and the marriage rate. It will be noticed that the present "marriage depression" started in 1924 and has been increasing in intensity ever since. The accumulated shortages since then have amounted to more than 17,000. At the present time, dissolutions of families by death or divorce exceed new marriages by more than 200 per month. The point of interest to real estate is:

What portion of this reserve can be released when conditions improve? The answer to this question depends to a large extent on what caused the present extremely low rate. If it is due to a change in social attitudes toward marriage, as some people believe, the present low rate should not be considered as entirely abnormal but merely as slightly below a new and lower normal. This we do not believe. A careful study of the chart will show that had marriages returned to a position slightly above normal in 1929 and 1930, that the chart would show a splendid balance above and below normal up to that point. In other words, the drop in marriages in 1924 to 1929 was a normal swing after the preceding boom. Our problem, then, is reduced to accounting for the low levels only during the most severe depression the World has ever known. It seems quite apparent that the greater part of the marriage depression is due to economic insecurity. If this is true, a very large area should develop above the line when economic conditions improve sufficiently. This again will cause a rapid absorption of vacancies. How soon will these factors start operating to reduce our vacancies? This depends entirely on general business conditions. We think they will all operate simultaneously. An increase in the marriage rate will be the first indication that this improvement has started. It will not come, we are sure, in the early part of 1933.

GENERAL BUSINESS CONDITIONS IN GREATER SAINT LOUIS

AS the recovery of real estate will depend to a large extent on the recovery of general business it is well to look at the general business situation. The chart immediately below shows that for the past three months industrial production, as measured by freight car loadings, has been increasing in Saint Louis. This increase is not yet reflected in check transactions, due to the drop in prices which enables the same amount of business to be done with less money and the tax on checks, which is diverting to cash many transactions formerly handled by check.

Business is being held back by the load of long-term indebtedness, contracted on the pre-crash price level. This indebtedness cannot be paid on the present level. The Reconstruction Finance Corporation is trying to cushion the readjustment by exchanging private debt for public debt. This is only a temporary expedient. It cannot be carried far enough to relieve the present distress without assuming such proportions that the credit of the government itself would be questioned. Until a sufficient portion of this long-term indebtedness can be liquidated either through payment, foreclosure or bankruptcy, no rapid improvement can start. When it has been reduced to a point where it is more in line with present prices, or when credit or monetary "reflation" causes prices to advance where they bear the customary relationship to debts, recovery will be rapid.

We do not believe this time has yet come, although the turn in the foreclosure line for Saint Louis real estate might indicate that the peak of real estate liquidation is past, with a hard climb back to normal ahead. During the reconstruction period, we must rebuild the foundation on which the superstructure of the prosperity of the future will be built. The foundation is in bad shape. Much time will be spent on it before the building itself can be started. When we are out of the hole, figuratively in our illustration, actually in our finances, progress will be rapid.